CANACCORD Adams

CGX Energy Inc.

OYL : TSX-V : C$1.13

SPECULATIVE BUY

Target: C$1.80

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COMPANY STATISTICS:

Forecast Return %:	59
52-week Range:	C$0.26 – 3.11
Avg. Daily Vol. (000s):	180.7
Shares Out (M) basic:	126.1
Shares Out (M) fd:	135.0
Market Cap (M):	US$121.2
Net Debt (2009E) (M):	US($13.7)
Enterprise Value (M):	US$107.5

EARNINGS SUMMARY:

FYE	2007A	2008A	2009E
Oil & NGL (bbl/d):	NA	NA	NA
Natural Gas (mmcf/d):	NA	NA	NA
Total (boe/d):	NA	NA	NA
EPS (fd)	($0.04)	$(0.05)	($0.02)
CFPS (fd):	($0.02)	($0.01)	($0.02)

Commodity Prices	2007A	2008A	2009E
WTI (US$/bbl):	$72.29	$99.92	$62.50
NYMEX Gas (US$/mmbtu):	$6.97	$8.89	$7.00

SHARE PRICE PERFORMANCE:

COMPANY SUMMARY:

CGX Energy is a Canadian-based oil and gas company focused on offshore and onshore oil exploration in the Guyana-Suriname basin.

All amounts in US$ unless otherwise noted.

Energy -- Oil and Gas, Exploration and Production

OFFSHORE DEVELOPMENT STEP BY STEP; MAINTAINING TARGET PRICE AND RATING

Event

The company recently updated the investment community with a corporate presentation. In it was a first glimpse of the results of the 3D seismic survey shot over the prospects offshore Guyana.

Impact

Neutral. The seismic improves the picture of the exploration prospects but does nothing to increase the value of the company's land holdings. In order to realize upside value, the company must still drill an offshore exploration well to assess the resource potential of its exploration prospects.

Valuation

We rate shares of CGX Energy SPECULATIVE BUY with a 12-month target price of C$1.80 which is based on the assumption that the company is able to develop successfully a 50 million barrel offshore discovery from offshore Guyana with internal expertise and capital resources.

Next Catalyst

The next catalyst for CGX is the completion of the 3D seismic processing. At that time, we expect that the company will reopen the data room and recommence the search for a joint venture partner.

RISKS AND VALUE PROPOSITION

In this uncertain market environment, we thought it important to highlight the company specific risks and the potential value proposition for CGX Energy. This is an early stage exploration company with significant resource exposure, but we note that with so many opportunities to invest, investors are also looking towards where they can either make money or avoid losing money.

Risks

CGX faces limited risks as it is very early in the exploration phase of its two focus offshore blocks in Guyana. These include financing risk and resource risk. Of the two, the financing risk is the most pressing issue for the company, but the resource risk is not far behind.

Financing risk: CGX is exposed to two financing risks. First of all, the company has enough money to pay for the processing of its 100% 964 square kilometres of 3D seismic on the Corentyne Petroleum Prospecting Licence (PPL) offshore Guyana as well as its 25% share of processing of the 2,344 square kilometres of 3D seismic from the Georgetown PPL. However, the company does not have sufficient funds to pay for drilling of wells on either block, with the Corentyne well recently estimated to cost almost $100 million.

In these capital markets, we are reasonably certain that the company could not raise new equity to fund a drilling program. That leaves the risk of finding a new partner for the 100% interest Corentyne PPL. We believe that the only likely partner(s) would come from existing operators in the area who are comfortable with the regional geology, resource potential etc. This would limit the possible partners for CGX and also limits the potential of getting overly attractive terms on a farm out.

Market conditions are working against the company right now, but the potential as mapped on 2D seismic appears to be massive – notwithstanding these risky times, we believe that CGX will find a willing partner to drill an exploration well on the company's lands.

Resource risk. The resource risk remains very real, but there is some comfort in the knowledge that offshore Guyana is a known hydrocarbon province, supported by offshore hydrocarbon shows in previous wells. There remains the standard exploration risk that the first well will not find any hydrocarbons, but we assume that CGX will mitigate this risk by drilling the best prospect first. With brand new 3D seismic data, the exploration risk will be mitigated, but remains substantial.

Value proposition

We believe that there is a significant value proposition in CGX today. Unrisked resource potential has been estimated by independent third party evaluators as ranging from 1.1 billion barrels to 6.2 billion barrels of oil in place on the company's 100% owned Corentyne PPL.

However, if the seismic data shows definitive structures and CGX can generate interest and find a partner to drill the well, CGX shareholders may also see an early value event. Given the resource potential and the relative interest of multinational oil and gas exploration and development companies, CGX may become an acquisition target. This would give CGX shareholders an early payout on the landholdings that the company has assembled and could come before the end of this year.

THE NEXT STEP – FARMOUT OR DRILL?

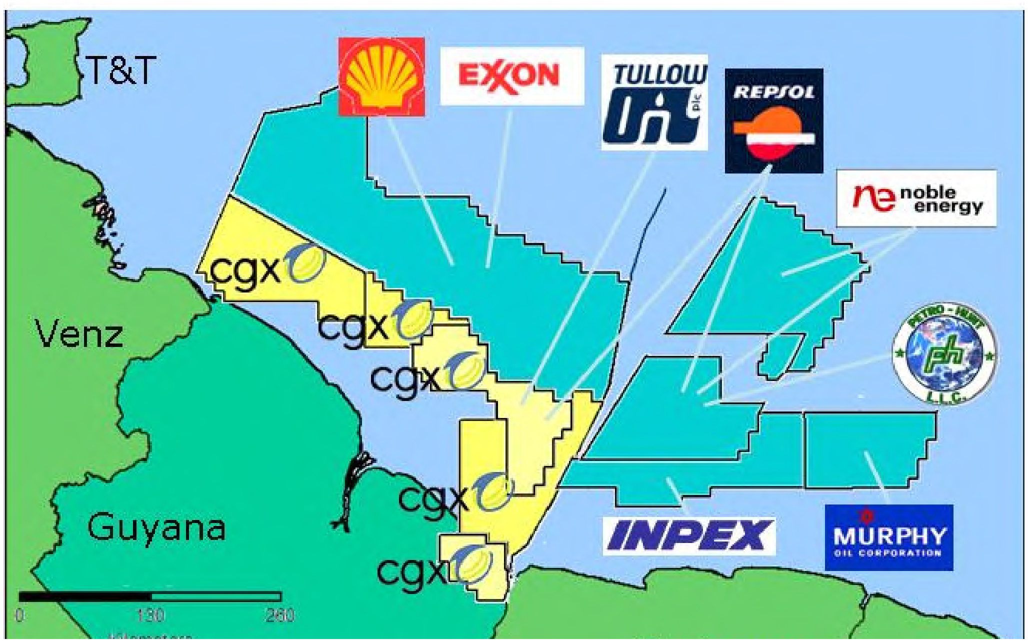
With the completion of the 3D seismic shoot and part of the processing and interpretation also completed, management of CGX must decide the next step. The company clearly will not be able to afford the cost of drilling an exploration well offshore (2008 estimate from US$85 million to $90 million), but is likely to attract a partner who may pay to farm in on the block.

The company has processed the seismic shot late in 2008 and has commenced interpretation. The 3D seismic has provided a better look at the exploration opportunities on the company's Corentyne Concession, where 2D seismic interpretation of the exploration potential estimated prospective oil resources of 1.1 billion to 6.2 billion barrels of oil.

The company is part way through the interpretation of the 3D seismic. Plans are to have the seismic fully interpreted by early summer (June or July). At that time, the company is likely to reopen a data room for interested parties. This would be a resumption of the process commenced last year when CGX was also looking for parties to farm in to the Corentyne Concession.

However, it is now apparent that with the interest of other larger offshore exploration companies in blocks in Guyana as well as in Suriname, this region may become an active area for exploration in the near future. We note the presence of Tullow and Repsol in particular in blocks that offset the CGX acreage.

Figure 1: Offshore Blocks - Guyana and Suriname



Source: Company reports

With the presence of multi-national exploration companies, the management of CGX is of the belief that there will be a number of wells drilled in the area in the next 12 to 18 months. This may allow CGX and a partner to drill a well on the Corentyne Concession for a much lower mobilization cost that currently estimated.

VALUATION

Our 12-month target price of C$1.80 is based on the assumption that the company is able to successfully develop a 50 million barrel discovery from offshore Guyana with internal expertise and capital resources. We assume that the company does not farm out a portion of the exploration well and the total exploration costs amount to $100 million.

We note that independent third party evaluation of the best prospects on the company's landholdings put the resource potential at 1.1 billion barrels on a low estimate basis, implying that this prospect has an approximate 5 percent chance of success. We continue to rate CGX Energy a SPECULATIVE BUY.

Figure 2: 50 million barrel scenario (per share value)

NPV After-Tax @ 20% per FD Share Outstanding ($C)									
Operating Costs (US$/bbl)	Long-term Crude Oil Price (US$/bbl)								
	$50	$60	$70	$80	$90	$100	$110	$120	$130
$5.00	$1.44	$1.87	$2.24	$2.58	$3.08	$3.58	$4.07	$4.57	$5.07
$7.50	$1.28	$1.73	$2.11	$2.45	$2.95	$3.45	$3.95	$4.44	$4.94
$10.00	$1.23	$1.58	$1.97	$2.34	$2.82	$3.32	$3.82	$4.32	$4.82
$12.50	$1.07	$1.56	$1.85	$2.23	$2.70	$3.20	$3.69	$4.19	$4.69
$15.00	$0.98	$1.40	$1.80	$2.12	$2.57	$3.07	$3.57	$4.06	$4.56

Source: Canaccord Adams

Investment risks

Risks to our investment thesis include:

An investment in the company's securities would be speculative due to the nature of the company's involvement in the exploration, development and production of oil and natural gas and its present stage of development.

Capital requirements and liquidity risks associated with the exploration, development and production of oil and natural gas from the company's Guyana assets.

Commodity price swings in crude oil and natural gas could impact CGX Energy's profitability.

Adverse changes to government regulations and fiscal terms. Any adverse changes could impact CGX Energy's execution and profitability.

A left-leaning government which is less business friendly could affect the profitability of the company's operations.

Figure 3: Summary of estimates

CANACCORD Adams

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CGX ENERGY INC.

OYL

Recommendation	**SPEC BUY**		**Current price**	**C$1.13**
12-month target price	**C$1.80**		**Total projected return***	**59%**
May 4, 2009			** includes dividends payable*	

ALL $ AMOUNTS ARE IN US$ UNLESS OTHERWISE NOTED

Share Information		Current
Market cap ($M)		$121.2
Shares O/S – basic (M)		126.1
Shares O/S – float (M)		79.5
Shares O/S – f.d. (M)		135.0
52-week range	C$0.26	C$3.11
Avg Daily Trading Volume (year)		180,662

Valuation	Current
Contingent Net asset value (CCI estimate)	$1.80
Price/NAV	63%
Enterprise value ($M)	$107.5
EV/proven reserves ($/boe)	NA

	2006A	2007A	2008A	2009E	2010E
EV/production ($/boe/d)	NA	NA	NA	NA	NA
Return on equity (%)	-14%	-6%	-6%	-2%	-1%
Return on capital employed (%)	-73%	-18%	-15%	-6%	-4%

Oil & Liquids Production (bbl/d)	2006A	2007A	2008A	2009E	2010E
First quarter	0	0	0	0	0
Second quarter	0	0	0	0	0
Third quarter	0	0	0	0	0
Fourth quarter	0	0	0	0	0
Annual	0	0	0	0	0

Natural Gas Production (mmcf/d)	2006A	2007A	2008A	2009E	2010E
First quarter	0.0	0.0	0.0	0.0	0.0
Second quarter	0.0	0.0	0.0	0.0	0.0
Third quarter	0.0	0.0	0.0	0.0	0.0
Fourth quarter	0.0	0.0	0.0	0.0	0.0
Annual	0.0	0.0	0.0	0.0	0.0

Total Production (boe/d) - 6:1	2006A	2007A	2008A	2009E	2010E
First quarter	0	0	0	0	0
Second quarter	0	0	0	0	0
Third quarter	0	0	0	0	0
Fourth quarter	0	0	0	0	0
Annual	0	0	0	0	0
% crude oil & liquids	NA	NA	NA	NA	1%
Production growth	NA	NA	NA	NA	NA

Reserves - 6:1	(at December 31, 2008)		
Equivalent reserves (mmboe)	Oil	Gas	Total
Proven	NA	NA	NA
Proven + probable	NA	NA	NA
% Proven producing	NA	NA	NA
% Proven	NA	NA	NA
% Crude oil & liquids			NA
Reserve life – proven (yrs)	NA	NA	NA
		1 Year	3 Year
Proven F&D costs ($/boe)		NA	NA
P+P F&D costs ($/boe)		NA	NA
Proven reserve replacement ratio		NA	NA

Market Multiples	2006A	2007A	2008A	2009E	2010E
Discretionary cash flow multiple	NA	NA	NA	NA	NA
Debt-adjusted multiple	NA	NA	NA	NA	NA
Earnings multiple	NA	NA	NA	NA	NA
Target multiple	NA	NA	NA	NA	NA
Debt-adjusted target multiple	NA	NA	NA	NA	NA

Net Income	2006A	2007A	2008A	2009E	2010E
Net income ($M)	NA	($4.5)	($6.6)	($2.6)	($1.5)
EPS (basic)	($0.07)	($0.04)	($0.05)	($0.02)	($0.01)
EPS (f.d.)	($0.07)	($0.04)	($0.05)	($0.02)	($0.01)

Cash Flow	2006A	2007A	2008A	2009E	2010E
Cash flow ($M)	($5.5)	($2.8)	($1.2)	($2.7)	($3.7)
CFPS (basic)	($0.06)	($0.03)	($0.01)	($0.02)	($0.03)
CFPS (f.d.)	($0.05)	($0.02)	($0.01)	($0.02)	($0.03)
CFPS (f.d.d.)	($0.05)	($0.02)	($0.01)	($0.02)	($0.03)

Capital Expenditures & Debt	2006A	2007A	2008A	2009E	2010E
Capital expenditures ($M)	$0.0	$0.0	$13.7	$5.0	$145.0
Year-end net debt ($M)	($0.7)	($37.0)	($21.4)	($13.7)	$135.1
Average net debt/cash flow	NA	NA	NA	(3.5)	0.4
Year-end net debt/cash flow	0.1	13.4	17.5	5.1	(36.1)

Commodity Prices	2006A	2007A	2008A	2009E	2010E
WTI oil (US$/bbl)	$66.13	$72.29	$99.92	$45.00	$60.00
NYMEX gas (US$/mmbtu)	6.73	6.97	8.89	5.00	6.00
Realized oil & NGL (US$/bbl)	NA	NA	NA	NA	NA
Realized natural gas (US$/mcf)	NA	NA	NA	NA	NA

Netbacks ($/boe)	2006A	2007A	2008A	2009E	2010E
Revenue	NA	NA	########	NA	NA
Net royalties	NA	NA	NA	NA	NA
Operating costs	NA	NA	NA	NA	NA
Operating netback	NA	NA	NA	NA	NA
Cash flow netback	NA	NA	NA	NA	NA

CFPS (f.d.d.) Price Sensitivity	2006A	2007A	2008A	2009E	2010E
+/- US$1.00/b WTI	$0.00	$0.00	$0.00	NA	$0.00
	0.0%	0.0%	0.0%	NA	0.0%
+/- C$0.10/mcf Gas	$0.00	$0.00	$0.00	NA	$0.00
	0.0%	0.0%	0.0%	NA	0.0%

Management Team

Kerry Sully, President and CEO	Birch Mountain, Ranchmen's Resources
Warren Workman, VP Exploratio	Amoco, Unocal, Ranchmen's
James Fairborne, CFO	Vena Resources, Black Pearl Minerals

Reservoir Engineer	**Banker**			
Gustavson Associates	N/A			
Auditor	**Bank Lines - Q3/08**	**2008A**	**2009E**	**2010E**
Parker-Simone LLP	N/A	N/A	N/A	N/A

Source: Canaccord Adams

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Site Visit: An analyst has visited CGX Energy Inc.'s material operations head office in Calgary, Alberta. No payment or reimbursement was received from the issuer for the related travel costs.

Price Chart:*

* Price charts assume event 1 indicates initiation of coverage or the beginning of the measurement period.

Distribution of Ratings:
Global Stock Ratings
(as of 1 May 2009)

	Coverage Universe		IB Clients
Rating	#	%	%
Buy	305	53%	26%
Speculative Buy	81	14%	36%
Hold	157	28%	23%
Sell	30	5%	20%
	573	100%	

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BUY: The stock is expected to generate risk-adjusted returns of over 10% during the next 12 months.
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SELL: The stock is expected to generate negative risk-adjusted returns during the next 12 months.
NOT RATED: Canaccord Adams does not provide research coverage of the relevant issuer.

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CGX Energy Inc.	1A, 2, 7

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